

Increasing Construction Performance Through Training and Certification

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Purpose

The objective is to research and determine how to provide nonprofit organizations, awarded funds from the Authority, a better understanding of how to properly evaluate an acceptably built or rehabilitated affordable housing unit before requesting an inspection and a drawdown of funds.

Problem Statement

There are too many property re-inspections performed by Authority inspectors throughout the state. These re-inspections create wasted staff time as well as increased costs incurred by the Authority in car maintenance and gas. In addition, payment requests cannot be processed and distributed to the nonprofit organization because the work, once inspected, does not meet approved construction standards thereby delaying the payments due contractors. Is it a lack of capacity in some organizations due to little knowledge in the area of housing and therefore the inability to understand how to properly evaluate whether a structure is ready for an Authority inspection or some other problem? If it is determined that there is a lack of capacity can this issue be overcome through a training and certification program created either by the Authority or by third party consultants in which Trust Fund participants are "schooled" in the area of rehabilitation so that they can learn and understand what an acceptably built or rehabilitated affordable housing unit is? Through data collection and analysis a determination of the problem will be made and a plan created to help resolve the problem.

Program Overview

The Authority's mission is to create quality affordable housing opportunities for the citizens of South Carolina trying to ensure that all South Carolinians have the opportunity to live in safe, decent and affordable housing. Enabling the Authority to create these opportunities is the state funded Housing Trust Fund program.

The Housing Trust Fund program is designed to provide nonprofit organizations with financial assistance to either develop or preserve affordable housing for low income households, those families are at or below 50% of the area median income, within the State. Nonprofit organizations must be certified by the IRS as tax exempt 501(c)(3) or (c)(4) corporations. To be eligible to participate in the Housing Trust Fund program nonprofit organizations must complete the Authority's Application for Nonprofit Participation and meet the eligibility criteria outlined in the application (Exhibit A). Once approved, the nonprofit organization can participate in any of the following Housing Trust Fund programs: Owner Occupied Emergency Repair, Owner Occupied Rehabilitation, Homeownership, Homeownership-Land Acquisition, Rental Development, Supportive Housing (Shelters and Transitional Housing) and Group Homes (Exhibit B). Each program has its own set of program requirements that the nonprofit organization is expected to adhere to.

The owner-occupied rehabilitation program (to include owner-occupied emergency repairs) will be concentrated on since this program has the most participation and therefore experiences the most problems. Exhibit C outlines the workflow process from application submission and acceptance through file closeout with additional detailed program information provided to further explain some of the workflow boxes.

Once the Authority's Board of Commissioners approves a Trust Fund project staff schedules an implementation meeting. This meeting allows Authority staff to review pertinent deadlines the nonprofit is expected to adhere to related to the approved project, such as returning executed recorded covenants, starting construction, and completing construction. In addition various Authority forms, Inspection Request Form, Change Order Request Form, Certification of Household Income Forms, etc. are reviewed and questions relating to these forms or any other program requirements are answered at the meeting. It is anticipated that after the

implementation meeting the nonprofit begin work, stay on track with their implementation schedule and complete the project as proposed. As the work progresses requests for construction inspections and drawdown of funds are made by the nonprofit based on work in place. An Inspection Request form is completed by the nonprofit organization and sent to Authority staff so that an inspection can be scheduled and conducted within two (2) weeks.

Based on discussions with the inspectors it appears that the nonprofit is not inspecting the completed work nor ensuring that the work was completed according to the work write up, which is the document executed by the homeowner and contractor outlining the scope of work to be done at the project, prior to requesting an Authority inspection and drawdown of funds. Other common problems found when completing inspections are contractors not meeting general construction quality standards, not meeting state and local building codes and not getting prior approval for change orders (Exhibit D), a document that changes the original scope of work, before the work is done. It's apparent that many nonprofits, without physically visiting the project, accept the contractor's word that the project is preceding as planned, the work is completed and the project is ready for an inspection. In addition, some nonprofits don't seem to realize, probably because they are not visiting the project, that the work completed isn't done correctly and falls short of quality workmanship.

Data Collection and Analysis

Understanding that some nonprofit organizations perform better than others and complete work with fewer difficulties, meaning not needing re-inspections or having delayed draw requests, I decided to review the organizational files of performing and non-performing nonprofits. Exhibit E provides information on four organizations that have been operating from 3 - 14 years experiencing minimal problems and five organizations that have been operating from 2 – 10 years with less than stellar results. The performing organizations have the following

common denominators, mainly full time staff with a wealth of experience in housing related services, staff and Boards with extensive experience in banking or real estate, and full time staff whose jobs are overseeing all construction aspects of a project. The non-performing nonprofits, on the other hand, have no housing related or banking experience, limited staff which are usually part-time, and the part-time staff also serves as the Board. Why should the Authority expect an organization to perform well or understand what acceptable construction standards are when there is limited inexperienced staff running an organization? The answer is, "We shouldn't expect much at all." The non-performing organizations do not have the necessary staff, experience, or knowledge to perform as expected. This, unfortunately, is no fault of the nonprofit organization but rather the Authority's in approving organizations that are not prepared or equipped with the necessary tools to perform well.

Exhibit F contains information related to the number of inspections and re-inspections completed per week, the cost of gas and staff time to complete an inspection, as well as the cost of conducting training using outside consultants. The stated problem is that Authority staff wastes time and gas re-inspecting projects over and over again. It is expected that a normal project would have four inspections, an initial, two draw inspections for work in place and a final inspection. On average there are 34 inspections per week. Currently 80% of these inspections fail resulting in 27 re-inspections. Of these re-inspections 20% fail resulting in five of these needing to be re-inspected. Therefore, instead of one project needing a total of four inspections, many of them need at least six or more inspections during the course of construction. Calculating the number of miles driven, cost of gas, and the inspector salary it costs the Authority \$61.46 to complete one inspection. A typical project needing four inspections costs \$245.84. However, if the project needs an additional three inspections before it is completed then the Authority must spend an additional \$184.38 before the project gets a final approval.

Over the course of a year the inspectors are conducting 1,768 re-inspections at a cost to the Authority of \$104,297.62.

Research was done on the cost of having professional consultants perform Construction Management and Nonprofit Capacity Building training sessions. The Authority has offered and paid for these types of training in years past (Exhibit F-1). Based on previous training costs, a three-day construction management training session, including a construction management guidebook, would cost \$33,061.00. The costs are similar for three-day training sessions regarding nonprofit capacity building. While the Authority could impose mandatory requirements for those nonprofit organizations not performing well to attend training sessions throughout the year, would this really solve the problem the Authority is experiencing in having to perform re-inspections? It's doubtful.

Based on the research and analysis the real problem with the non-performing nonprofits is a lack of capacity based on the current staff in place. Capacity refers to an organizations ability to achieve its mission effectively and to sustain itself over the long term. Capacity also refers to the skills and capabilities of individuals within the organization that enable them to carry out the mission of the organization. Staff must have skills and experience to undertake the work needing to be completed. Those non-performing nonprofit organizations outlined in Exhibit E do not have experienced staff capable of carrying out their organizations mission.

In an article published by The National Line on June 30, 2006, HUD Inspector General, Kenneth Donahue stated, "a grantee organization's lack of capacity is the second largest category of repeat audit findings. A grantee that cannot allocate its resources in people, training and material to administer grant money will encounter problems." As nonprofit organizations play important roles in the Authority's programs, it becomes critical for them to perform effectively.

Knowledge and skills can be learned through training however, if there is a capacity issue then training will not solve the problem.

Implementation Plan

In order to reduce wasted staff time and expense in completing re-inspections the following must be done: (1) Revise existing nonprofit participation requirements in the areas of housing experience, staff capacity, and board structure; (2) Re-evaluate the non-performing organizations currently participating in Authority programs and require them to increase staff capacity with experienced people, attend training and workshops dealing with organizational development (capacity building), housing development, and construction management; (3) Provide on-site training in construction management; and (4) Amend the Inspection Request Form.

As there are some counties in the state with few or no nonprofit organizations involved in housing development the goal is to increase nonprofit participation in those areas. However, there must be requirements that nonprofits approved to work and receive funds from the Authority have the capacity in which to carry out the work expected of them or they will fail. Current organizations are approved based on "having one-year of experience serving the community where it intends to provide affordable housing and if it doesn't have such experience then a consultant in good standing with the Authority can sponsor the nonprofit and provide the experience. In addition the nonprofit must have staff capacity that can carry out the activities it is planning to undertake." However, there are no specific requirements for an organization to have full or part time staff or a set number of staff. In additional, some of the non-performing organizations list as their consultants other non-performing nonprofit organizations. There are no requirements related to the Board makeup. Board members, with experience in housing development or finance and banking could provide assistance and training to inexperienced staff.

The non-performing nonprofits have Board members that are also the staff. There should be a separation between these two groups since staff is charged with carrying out and performing the daily activities of the organization while the Board oversees and sets policy and direction for the organization. Venture Philanthropy Partners state, "People- professional staff, volunteers, board members- are the lifeblood of any nonprofit organization. An organization's human resources represent the collective capabilities and experiences of its people, and yet nonprofit organizations not only are reluctant to manage talent actively (especially compared to the private sector) but they also tend to undervalue their people." Specific requirements for organizational structure must be laid out. There should be, at a minimum, two full time staff persons to operate an organization, with at least one of the staff persons having a minimum of 2 or more years of successful experience in carrying out the same activities they plan to undertake with Authority funds. The successful experience should be verified by third party sources. Board composition should be comprised of at least three Board members with diversity in fields of practice relating to housing development- construction, banking, real estate, etc. None of the organizational staff should be Board members.

Re-evaluation of already approved non-performing organizations should be done. Additional Authority funding for these organizations should be suspended until such time, at a minimum, the staffing levels and Board composition are met under the new nonprofit participation requirements. In addition, as administrative funds are available through the Trust Fund program, third party consultants should be hired to conduct training sessions that cover nonprofit capacity building as well as construction management with these organizations. The training sessions should be mandatory and should an organization choose not to participate then further participation in Authority programs should be suspended. In addition, as the Authority

is notified of workshops and training sessions, this information should be disseminated to all nonprofit organizations.

On-site construction management training should be conducted at least three times a year. It should be mandatory for all new organizations and those experiencing problems to attend. Since all construction problems are not the result of the nonprofit, it should be mandatory that contractors, especially those participating regularly with the Authority and experiencing problems, also be required to attend training. The Authority has three full time inspectors that perform housing inspections. Each is certified in various aspects of construction management from code enforcement to rehabilitation standards. Since the inspectors are aware of the most recurring inspection problems they could collectively conduct a Construction Training Workshop in which they outline the most recurring inspection problems and how to avoid them. A Construction Manual (Exhibit G) for the Housing Trust Fund Program was created several years ago. I asked program staff if the manual was reviewed with nonprofit organizations during the implementation sessions and the answer was No. I asked when the manual was reviewed and was told that it was reviewed once a year at the Trust Fund training session. The once a year training session is not mandatory and simply reviews the various Trust Fund program activities. Any nonprofit organization approved to participate after the once a year training session would probably never know the Construction Manual existed. As new organizations are approved the Authority should ensure that each organization receives at least two Construction Manuals, one for them and one for their contractor, and their names added to the next Construction Training Workshop. Obviously, the Construction Manual should be incorporated and reviewed at the Construction Training Workshop.

As noted by the inspectors it appears that the nonprofit is not inspecting the completed work nor ensuring that the work was completed according to the work write up. The Inspection

Request form, completed and sent in by the nonprofit, is neither signed nor certified by the contractor, nonprofit or homeowner that work is completed. There is also no reference to the specific items on the work write up which have been completed for which the inspection is being requested. Since all approved work is based on the work write up that is submitted with the initial project application it would make sense to have the specific work completed noted on the Inspection Request form. In addition the inspection form should be amended to include an area for the nonprofit to sign certifying that they have been to the project, seen the work in place, and agree that it is work completed as outlined in the work write up. In so doing the Authority could be assured that the nonprofit has gone to the site and at least one level of inspection has been done prior to the Authority sending an inspector. The ability of the nonprofit to determine whether the work was done correctly would hopefully be increased overtime through the recommended mandatory construction training sessions.

The Virginia Department of Housing and Community Development states, "Effectiveness is accomplished by an organization fulfilling its mission through a blend of sound management, strong governance, and persistent rededication to achieving results." Changes recommended above, if implemented, should help the Authority approve more qualified nonprofit organization, build capacity in these organizations through training, and reduce the number of re-inspections thereby reducing wasted staff time and expense.

Evaluation Method

The results of the recommended changes will take time and are by no means meant to be an overnight solution to the existing problem. There are few quick fixes when it comes to building capacity and accordingly it will take patience, time, restructuring, and training in order for the non-performing organizations to develop and become effective organizations. With all that said, I'm certainly not implying that there be unlimited timeframes for these organizations to

begin showing change. In fact, specific time lines should be set for each of the non-performing organizations. There should be deadlines set for restructuring an organization and having training completed. Those organizations without noticeable improvement should have penalties imposed. Penalties such as a reduction in the developer fee earned based on the number of re-inspections performed to ultimately the denial of participation in Authority programs should be established.

If the recommended changes are made I would estimate there would be a reduction in the number of re-inspections within the first 6 months by possibly as much as half resulting in a cost savings of \$52,148.81. Within a year hopefully no more than one re-inspection per project could be achieved.

References

1. Alliance for Nonprofit Management, excerpt from Evaluation of Capacity Building: Lessons from the Field by Deborah Linnell.
2. The National Line, a Bi-Weekly Update on Economic Development, Housing and Community Development, June 30, 2006.
3. Effective Capacity in Nonprofit Organization, prepare for Venture Philanthropy Partners by McKinsey & Company.
4. Virginia Department of Housing and Community Development, Office of Community Capacity Building.